

File

**1981
Annual Report**



**Inventronics
Limited**

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**PRESIDENT'S
MESSAGE
TO THE
SHAREHOLDERS**

The Annual Report contains consolidated financial statements which reflect the results of Inventronics Limited and Technically Engineered Plastics Inc. The services of Technically Engineered Plastics have been primarily utilized in providing plastic design support to Inventronics. Accordingly it has had an insignificant effect on the over-all financial results.

During the year ended May 31, 1981 your company achieved a sales growth of 11 per cent over the prior year. Net operating income increased 12 per cent to \$267,875 from \$240,079 last year. Net earnings per share on operations was 18 cents compared to 17 cents last year. Original sales projections of \$3.5 million for the year were not reached as market conditions during the latter months were somewhat weaker than anticipated.

Projections for fiscal 1982 indicate sales of \$3.8 million. This growth will be achieved while concentrating on personnel training and plant efficiency. Plans are to ensure our customers continue to receive quality product as we grow towards optimum utilization of the present facilities.

Your board is confident performance of the company will continue on a positive trend.

We extend an invitation to our shareholders to attend the annual meeting and learn more about the plans for your company's future.

On behalf of the Board of Directors



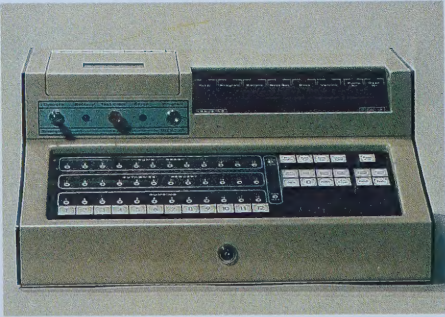
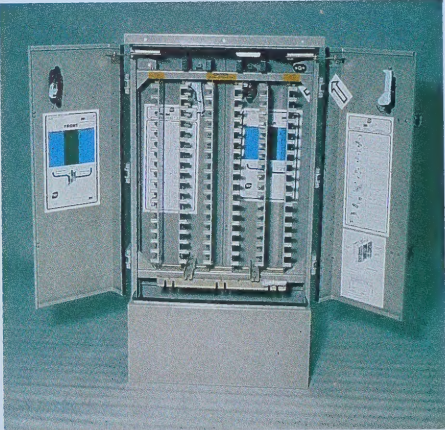
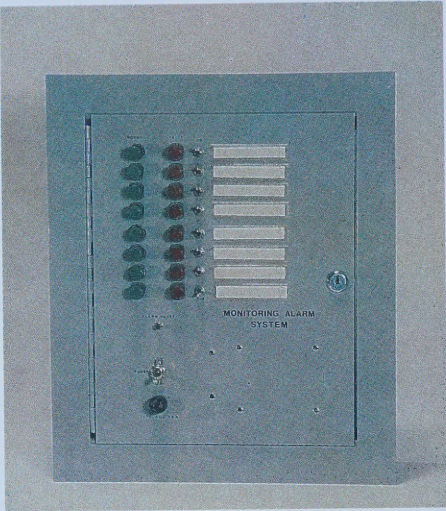
James Welland Dalzell
President

COMPARATIVE PERFORMANCE SUMMARY

	1979	1980	1981
NET SALES	1,799,741	2,828,297	3,138,684
GROSS PROFIT	451,559	820,458	977,654
NET OPERATING INCOME	151,026	240,079	267,775

PRODUCT:

**TELCOM
AND
CUSTOM**



BUILDING FOR THE FUTURE

Petro Comm Industries Ltd. of Alberta, 25% owned by Inventronics, has become our official marketing representative in Alberta, British Columbia and the Northwest Territories. Petro Comm also represents a number of other manufacturers and suppliers selling to the telecommunications and petro chemical industries. Petro Comm is gaining increased recognition in a busy market place.

Technically Engineered Plastics Inc. has become a wholly owned subsidiary of Inventronics. To date the company has been primarily utilized for product development. A significant portion of the parts for the Bell Booth Project were produced by Technically Engineered Plastics and currently parts for another major project are being manufactured. A substantial contribution has been made to Inventronics through introduction of the plastics technology.

Plans to diversify our product line have continued during the past year. A great deal of effort has been devoted toward becoming

a major product supplier to 3M United States. Regular orders are now being received from this source and export of Inventronics products will increase over the next several years. This success reinforces our commitment to longer-term research and development of new product areas for Inventronics.

A comprehensive Quality Control Program has recently been implemented. The objective is to ensure that Inventronics enhances and maintains its image as a supplier of only first quality product for all its customers. The program has so far met with complete acceptance from our customers.

We continue to conduct numerous training programs in conjunction with Canada Manpower and the Assiniboine Community College. During the past year there have been several promotions of personnel from within the organization as we continue our philosophy of job satisfaction through growth and promotion.



DESIGN AND DEVELOPMENT

The design and prototype portions of the Bell Booth project have been completed. About 20 prototype telephone booths manufactured by Inventronics have been installed in Ontario and Quebec by Bell Canada for evaluation purposes. Verbal reports so far are favorable. We expect formal evaluation reports from Bell Canada, beginning in early 1982, with the possibility of purchase orders to follow by late 1982.

Inventronics has designed and built an electronic depth control device for Airseeders. Field trials demonstrated the device worked well and the first production run is underway. Regular sales will commence in early 1982.

We are experiencing continued success with several series of cabinets for 3M U.S.A. Major orders are expected by mid-1982.

Inventronics recently made a successful application for an Economic Development Grant in the amount of \$200,000. These funds, with an expanded engineering staff, will be used for the design and development of several new products for 3M Canada, 3M U.S.A., and other customers. A major objective, is to make the thrust into the export market successful.

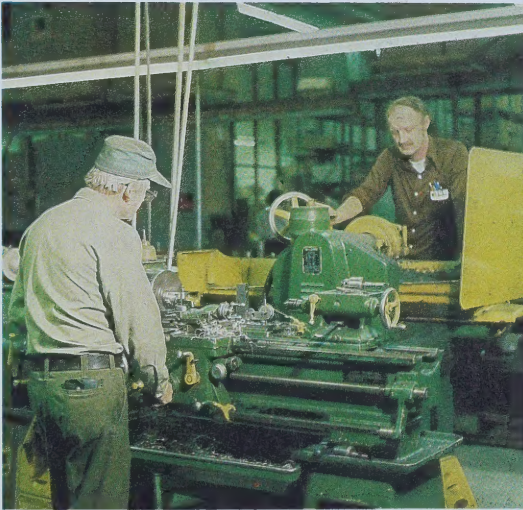
MAIN PLANT INVENTRONICS



FACILITY:

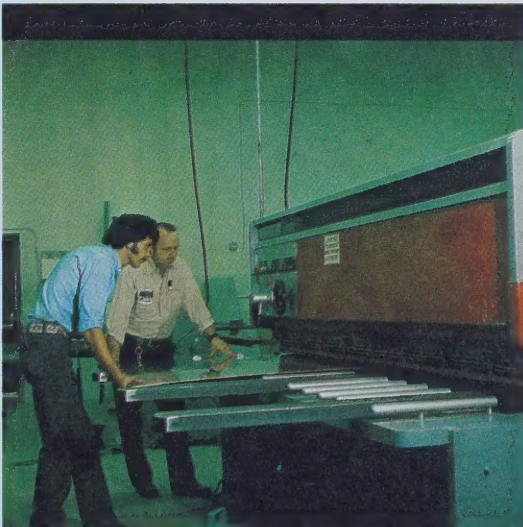


**ENGINEERING
DRAFTING
TOOLING
AND
METAL
FABRICATION**



On-going design consultation with clients ensures needs are satisfied while our tool and die department ensures machines are adequately equipped to manufacture the product.

Modern metal processing equipment provides the capability to shear, punch, roll, brake or weld various metals.



FACILITY:

METAL

PREPARATION

COATING

AND

ASSEMBLY



Metal parts are processed through various steps of a twelve stage system to clean, etch, or remove rust. Product can be either wet painted or powder coated. A well equipped assembly shop facilitates cabinet assembly, wire harness preparation, silk-screening, packaging and palletizing.



**INVENTRONICS
LIMITED**
**CONSOLIDATED
BALANCE SHEET**
AS AT
31 MAY, 1981

ASSETS

	<u>1981</u>	<u>1980</u>
CURRENT		
Cash	\$ 9,761	\$ —
Accounts receivable	931,977	570,762
Income taxes refundable	14,238	
Inventories, notes 1 and 2	958,104	777,944
Prepaid expenses	85,913	13,987
	<u>1,999,993</u>	<u>1,362,693</u>
LONG TERM INVESTMENTS, note 3	56,200	50,000
FIXED, notes 1 and 4	1,438,446	1,168,861
OTHER, notes 1 and 5	82,330	—
	<u>\$ 3,576,969</u>	<u>\$ 2,581,554</u>

Approved on behalf of the Board:



J.W. Dalzell, Director



D. Cristall, Director

LIABILITIES

	<u>1981</u>	<u>1980</u>
CURRENT		
Bank indebtedness, note 6	\$ 1,014,069	\$ 404,074
Accounts payable	114,383	128,491
Income taxes	—	67,305
Customer deposits	—	68,280
Current portion of long term debt	29,622	27,979
	<u>1,158,074</u>	<u>696,129</u>
LONG-TERM DEBT, note 7	473,493	349,368
DEFERRED INCOME TAXES, note 1	362,425	256,254
	<u>1,993,992</u>	<u>1,301,751</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL, note 8		
Authorized		
3,000,000 Common shares of no par value, aggregate consideration not to exceed \$5,000,000		
Issued		
1,525,610 Common shares	957,496	835,726
(1980 - 1,439,510)		
RETAINED EARNINGS	625,481	444,077
	<u>1,582,977</u>	<u>1,279,803</u>
	<u>\$ 3,576,969</u>	<u>\$ 2,581,554</u>
STATUTORY INFORMATION, note 9		
SUBSEQUENT EVENT, note 11		

INVENTRONICS LIMITED

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED 31 MAY, 1981

	<u>1981</u>	<u>1980</u>
SALES	\$3,138,684	\$ 2,828,297
COSTS AND EXPENSES		
Cost of sales and operating expenses	2,063,040	1,928,293
Amortization of goodwill	2,000	—
Amortization of research and development costs	—	16,059
Depreciation	63,898	51,600
Administration and selling expenses	413,118	347,659
Research and development expenses	59,570	45,864
Interest on long term debt	68,145	36,135
Other interest	41,369	26,708
	<u>2,711,140</u>	<u>2,452,318</u>
INCOME ON OPERATIONS	<u>427,544</u>	<u>375,979</u>
OTHER INCOME		
Gain on disposal of fixed assets	4,458	—
Miscellaneous	1,976	757
	<u>6,434</u>	<u>757</u>
INCOME BEFORE INCOME TAXES	433,978	376,736
INCOME TAXES	<u>166,203</u>	<u>136,657</u>
NET INCOME FOR THE YEAR	<u>267,775</u>	<u>240,079</u>
Retained earnings, beginning of year	444,077	275,519
	<u>711,852</u>	<u>515,598</u>
Dividends	86,371	71,521
RETAINED EARNINGS, END OF YEAR	<u>\$ 625,481</u>	<u>\$ 444,077</u>
NET INCOME PER COMMON SHARE	<u>\$.18</u>	<u>\$.17</u>

	1981	1980
SOURCE OF FUNDS		
Operations	\$ 267,775	\$ 240,079
Net income for the year		
Items not involving funds		
Amortization	2,000	16,059
Depreciation	63,898	51,600
Deferred income taxes	106,171	60,542
	439,844	368,280
Proceeds from sale of share capital	121,770	10,920
Long term borrowing	200,000	200,000
Department of Regional Economic Expansion grant	68,297	12,032
	829,911	591,232
APPLICATION OF FUNDS		
Purchase of fixed assets	401,780	460,835
Research and development costs	54,434	—
Goodwill acquired	29,896	—
Reduction of long-term debt	75,875	29,132
Purchase of investments	6,200	50,000
Dividends	86,371	71,521
	654,556	611,488
INCREASE (DECREASE) IN WORKING CAPITAL	175,355	(20,256)
Working capital, beginning of year	666,564	686,820
WORKING CAPITAL END OF YEAR	\$ 841,919	\$ 666,564
REPRESENTED BY:		
Current assets	\$ 1,999,993	\$ 1,362,693
Current liabilities	1,158,074	696,129
	\$ 841,919	\$ 666,564

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INVENTRONICS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 MAY, 1981

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies of the Company:

(a) Principles of Consolidation

These consolidated financial statements include the accounts of the wholly owned subsidiary Technically Engineered Plastics Inc. The results of operations of the subsidiary are included from the date of acquisition on 31 January 1981. The purchase method was used to record the acquisition, details of which are given in note 12.

(b) Inventories

Finished goods are stated at the lower of cost and net realizable value. Work in process and raw materials are stated at the lower of cost and replacement cost which is not in excess of net realizable value. Cost is generally determined on a first-in, first-out basis.

(c) Depreciation

Depreciation is provided on a straight line basis as follows:

Production equipment	— over 20 years	Tool and die machinery	— over 15 years
R and D. test equipment	— over 20 years	Tools and dies	— over 5 years
Engineering equipment	— over 15 years	Building	— over 50 years
Furniture and equipment	— over 20 years		

(d) Deferred Income Taxes

Deferred income taxes result from claiming capital cost allowance for income tax purposes in excess of depreciation recorded in the accounts.

(e) Other Assets

Research and development costs are stated at cost. The basis of amortization will be determined during the next fiscal year.

Goodwill is stated at cost less accumulated amortization. Amortization of goodwill is provided on a straight line basis over five years.

2. INVENTORIES

	1981	1980
Finished goods	\$ 66,214	\$ 62,502
Work in process	322,963	381,462
Raw materials	568,927	333,980
	<u>\$ 958,104</u>	<u>\$ 777,944</u>

3. LONG TERM INVESTMENTS

	1981	1980
Shares in Petro-Comm Industries Ltd., at cost, 33 of 133 common shares issued	\$ 50,000	\$ 50,000
Shares in Bran Can Engineering and Resources Ltd., at cost, 44,000 of 150,000 common shares issued	6,200	—
	<u>\$ 56,200</u>	<u>\$ 50,000</u>

4. FIXED ASSETS

	1981		1980	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Production equipment	\$ 908,018	\$ 139,646	\$ 561,278	\$ 101,584
R and D test equipment	1,380	405	1,380	336
Engineering equipment	5,994	1,713	5,994	1,313
Furniture and equipment	16,253	2,277	12,841	1,466
Tool and die machinery	12,591	5,679	12,591	4,914
Tools and dies	47,068	31,798	34,194	27,981
Building	678,050	59,009	715,478	45,845
Land	9,619	—	8,544	—
	<u>1,678,973</u>	<u>240,527</u>	<u>1,352,300</u>	<u>183,439</u>
Cost less accumulated depreciation		<u>\$ 1,438,446</u>		<u>\$ 1,168,861</u>

5. OTHER ASSETS

	1981	1980
Research and development costs	\$ 53,434	\$ —
Goodwill	27,896	—
	<u>\$ 82,330</u>	<u>\$ —</u>

6. BANK INDEBTEDNESS

The bank indebtedness is secured by a general assignment of book debts and a general assignment covering all inventories.

7. LONG TERM DEBT

	<u>1981</u>	<u>1980</u>
First mortgage, repayable \$1,000 monthly plus interest at 13%, maturing 1986	\$ 59,000	\$ 71,000
Demand debenture, repayable \$3,900 monthly including interest at prime plus 1 1/2%, maturing 1995	201,600	207,821
Demand debenture, repayable \$5,582 monthly including interest at prime plus 1%, maturing 1988	<u>242,515</u>	<u>98,526</u>
	503,115	377,347
Current portion	<u>29,622</u>	<u>27,979</u>
	<u>\$ 473,493</u>	<u>\$ 349,368</u>

Principal payments due in the next five years are as follows:

1982 — \$29,622 1983 — \$33,914 1984 — \$39,252 1985 — \$45,891 1986 — \$52,696

8. SHARE CAPITAL AND OPTIONS

The Company has an employee stock option plan whereby employees, directors and officers are allowed to purchase up to 1,000 shares each at a price determined by the Board of Directors during the month of September each year. Under the plan, 19,400 shares were purchased in the current year at a price of \$1.12 per share, yielding \$21,728; included in the 19,400 shares were 6,000 shares issued to directors.

The Company also issued 66,700 shares for a cash consideration of \$100,050, being \$1.50 per share.

During the year the authorized maximum aggregate consideration for the issue of 3,000,000 common shares was increased from \$1,000,000 to \$5,000,000.

9. STATUTORY INFORMATION

The direct remuneration paid or payable to the directors and senior officers of the Company as defined under the Manitoba Securities Act has not been disclosed as the required disclosure would not be meaningful.

10. RELATED PARTY TRANSACTIONS

Significant transactions with Petro-Comm Industries Ltd., an affiliate, not disclosed in the accompanying financial statements, were as follows:

	<u>1981</u>	<u>1980</u>
Sales	\$ 52,589	\$ 696
Commissions expense	55,996	21,722
Accounts payable	18,365	5,141
Accounts receivable	<u>35,850</u>	—

During the year Inventronics made a private placement to another corporation of 66,700 shares at \$1.50 a share, aggregating \$100,050; subsequently the President of this corporation became a director of Inventronics.

11. SUBSEQUENT EVENT

In July a conditional bid of \$2,000,000 to purchase a manufacturing facility was made by a newly created, wholly owned subsidiary.

12. ACQUISITION

On 31 January 1981 the Company completed the acquisition of all of the shares in Technically Engineered Plastics Inc. The following were the net assets at values assigned:

Current Assets	\$ 21,930
Fixed Assets	38,361
Research and development costs	54,434
Goodwill	<u>29,896</u>
	144,621
Current liabilities	<u>76,821</u>
Total cost of acquisition	<u>\$ 67,800</u>

**OFFICERS
AND
DIRECTORS**

<u>NAME</u>	<u>OFFICE</u>	<u>PRINCIPAL OCCUPATION</u>
JAMES WELLAND DALZELL	Chief Executive Officer and Director	President Inventronics Limited Brandon, Manitoba
DANIEL CRISTALL	Chairman and Director	Secretary Treasurer New System (Brandon) Ltd. Brandon, Manitoba
ERNEST A. WEHRLE	Secretary-Treasurer	Lawyer-Partner, Schwartz, McJannet Weinberg, Riley Winnipeg, Manitoba
JOSEPH A. MULLALLY	Director	Lawyer- Partner Carroll, Mullally Paterson & Brawn Brandon, Manitoba
PETER PAKOSH	Director	Retired Executive Winnipeg, Manitoba
RICHARD L. CRIDDLE	Director	Vice President Finance and Administration Winnipeg, Manitoba
GEORGE R. RANSON	Director	General Manager Inventronics Limited Brandon, Manitoba
MAURICE KEYLOR	Director	President Petro Comm Industries Ltd. Edmonton, Alberta
PAUL CANCADE	Director	President, Cancade Company Limited Brandon, Manitoba

MANAGEMENT COMMITTEE

J.W. DALZELL – CHAIRMAN

Members

G.R. Ranson
A.W. Gaber J.W. Brannan

AUDIT COMMITTEE

J.A. MULLALLY – CHAIRMAN

Members

P. Cancade G.R. Ranson

AUDITORS

Dunwoody & Company
Brandon, Manitoba

LAWYERS

Schwartz, McJannet,
Weinberg, Riley
Winnipeg, Manitoba



ANNUAL REPORT 1981

Inventronics Limited

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